WORLD COUNCIL OF CREDIT UNIONS, INC.
RESEARCH MONOGRAPH SERIES

Number 15

Nicaragua Financial Services to Microentrepreneurs: A Study of Rural Credit Unions

A Report prepared for the USAID/WOCCU Rural Credit Union Project/Nicaragua

Prepared by:
Cathie Mahon
June 1999

Editor
Roger J. Mukasa

For further information on this monograph article, please contact:

Information Center
World Council of Credit Unions, Inc.
P.O. Box 2982
Madison, WI 53701-2982
USA

TABLE OF CONTENTS

I. EXECUTIVE SUMMARY

A. The Critical Niche for Nicaragua's Rural Credit Unions

The critical niche for Nicaragua's rural credit unions was microenterprise financial services. By April 1999, 20 credit unions were participating in the USAID/WOCCU Rural Credit Union Project which had begun in June 1996. This monograph is based on a study of six of the 20 project credit unions. The six credit unions were selected for this study because they had been affected by the hurricane, they are located in areas with much microenterprise activity, and they are geographically dispersed over a number of regions. Each of these six credit unions offered microenterprise loans to their members. By April 1999, 52.6% of all six credit unions' loans were microenterprise loans. These micro-enterprise loans were for very small amounts; 37% of the loans originated were for amounts less than $300. Fifty-seven percent were for amounts less than $500. The microenterprise loan purposes were of four types: commercial, small industry, service and transportation. More than 56% of microenterprise loans (or 393 of the 695) were made to women. Therefore, the six credit unions, serving 2,833 members, were actively engaging in microenterprise development, and were reaching, proportionately, more female borrowers than male borrowers.

B. Customized Lending

Nicaragua's credit unions offered flexible, customized lending to meet the needs of first-time and small borrowers. The credit unions studied offered:

- Flexible collateral and capacity-to-pay lending criteria for loans of less than $500;
- Monthly, bi-weekly, weekly, or daily loan repayment plans (credit union staff customized plans to best fit the needs of the borrower's business); and
- Stepped lending to first-time loan applicants and those with limited capacity to pay. (Stepped lending involved approving very small loans and increasing the amounts that loan applicants can apply for over time.)

C. Filling an Unmet Need

The credit unions were filling an unmet need for credit to rural and urban microenterprises. The consultant met with microenterprise borrowers in Esteli, Corinto and Masatepe. These borrowers had been offered credit and group lending methodologies by Nicaraguan government agencies and non-governmental organizations. The borrowers reported that credit unions' services were more convenient, provided faster turnaround on loan requests, and included flexible loan repayment schedules.

D. Improved Business Operations and Profits

Credit union microenterprise loans improved business operations and profits for microentrepreneurs. Two business growth measures used by some Nicaraguan entrepreneurs were product expansion (both type and volume), and more customers. By using credit union loans, some of Nicaragua's entrepreneurs were able to:

- obtain discounts on purchases, and 'wait for their price' on non-perishable goods, thereby increasing their profit margins;
- better negotiate their transactions; and
- generate additional earnings on savings.

The study assessed the effects of the hurricane on credit union members. Members in rural and agricultural communities were most affected by the hurricane. Those members who had more than one income-generating activity per household appeared to be recovering more quickly than those reliant on one activity (i.e., agriculture).

II. INTRODUCTION

In Nicaragua, credit unions offered access to capital and saving mechanisms to poor, rural entrepreneurs. Capital enabled the entrepreneurs to grow their businesses. Savings mechanisms generated greater liquidity for the enterprise and the household. The USAID/WOCCU Rural Credit Union Project sought to expand the financial services of Nicaragua's rural credit unions. Achieving this goal could provide rural microentrepreneurs with permanent access to credit and financial services.

A. Purpose of the Study

The experiences of six high-growth credit unions with microenterprise financial services were reviewed, with three objectives:

- to develop a consistent, workable definition of microenterprise activities;
- to examine the level, use, and impact of financing to microenterprises; and
- to explore the varying effects of Hurricane Mitch on microenterprise development.

The six credit unions studied were La Moderna (in Esteli)*, Integral (in Sebaco)*, Iaguei (in Corinto), La Unidad (in Yalanguina)*, Masatepe (in Masatepe) and Dipilto (in Ocotal).*[1] The first task was to define a microenterprise. The second task was to measure rural Nicaraguan credit unions' delivery of financial services to microentrepreneurs.

1 * These credit unions were located in regions that suffered considerable damage and losses from Hurricane Mitch in October, 1998. This hurricane, which was the worst in recent history, devastated a large portion of Central America. An estimated 9,000 people died. Infrastructure and crops valued between US$4 - $10 billion were lost. Section VIII examines the effects of the hurricane and analyzes the strategies that borrowers have employed to recover from it.

B. Definitions and Description of Microenterprise Activity

In Nicaragua, micro-entrepreneurs served the commercial, services, transportation, light manufacturing, and distribution sectors. For this study, a *microenterprise* was defined as a very small business and a source of income (sometimes supplemental income) and employment to poor or disadvantaged households. It was a non-agricultural, enterprise activity employing five or less employees.

An entrepreneur applied for a microenterprise loan (also known as 'microcredit'). The purpose of microcredit was to produce either a good or a service, and an income. *Microfinance* was defined as the provision of credit *and* savings services to an individual or household supported by a microenterprise.

To determine the degree to which microfinance activities target the poor, international donors and microenterprise practitioners focus special attention on two measures: gender and loan size. *Loan size* identifies the availability of very small amounts of credit to poor entrepreneurs. The 1997 USAID microenterprise policy document defined a *'poverty loan'* (made in Latin American countries) as a loan of less than US$300. In this monograph, two measures were used to demonstrate the extent to which a credit union was engaged in 'poverty' lending: microenterprise loans under $300 and from $301-$500, and loans originated to women entrepreneurs. Future impact studies would analyze changes (over time) in *first-time* borrowers' reported household income and net worth.

C. Tracking Microfinance in Credit Unions

The six credit unions did not directly track the financial services they provided to microentrepreneurs. For this study, 'loan destinations' were used to track the microenterprises' activities. The 'loan destination' categories were agricultural, commercial, small industry, service, transportation, construction, personal and automatic.[2] Credit union managers, staff, and project technical assistance staff suggested these categories.

Meetings with the six credit unions' managers and board members generated information about the credit unions' impact on the microenterprises. Twenty-four borrowers were interviewed.[3]

[2] One credit union had initiated automatic loans. These loans, which were 120% secured by savings, provided immediate loans to members. This service offers members an option to borrow against savings.

[3] Twenty-one of the twenty-four borrowers interviewed were engaged in a non-agricultural enterprise activity. Most borrowers only employed immediate family members.

III. BACKGROUND AND PERFORMANCE OF THE CREDIT UNIONS STUDIED

Beginning in 1996, the 5-year USAID / WOCCU Rural Credit Union project sought to strengthen the capacity of rural financial institutions to meet the broad range of financial services needs among poor and rural populations. A key initiative in the project was building the credit unions' capacity to mobilize savings. The major challenge to savings mobilization was ensuring the security of member savings.

In order to be accepted into the project, the credit unions underwent a diagnostic analysis of their current capacity and market potential. Once in the project, they received extensive training and technical assistance, adopted new bylaws consistent with improved management and operations systems, and publicly disclosed their financial condition. Savings mobilization was accompanied by the remodeling (and in some cases, relocation) of credit union facilities. This remodeling would promote an image and appearance of a more formalized, professional financial institution.

Of the six credit unions studied, three credit unions (La Moderna, Integral and Iaguei) were actively engaged in savings mobilization. These three institutions had experienced substantial growth over the last two to three years. The other three credit unions were scheduled to begin savings mobilization in the second and third quarters of 1999.

Table 1 provides a snapshot of the six credit unions' members, loans, and savings at the end of February, 1999.

Table 1: Credit Unions Studied

Credit Union	Members	Loans	Savings*
La Moderna	909	$179,176	$79,165
Integral	467	$120,677	$21,800
Iaguei	453	$60,416	$67,295
Dipilto	582	$230,098	$7,992
La Unidad	257	$108,418	$1,202
Masatepe	165	$20,052	$507
Total	**2,833**	**$718,837**	**$177,962**

Note: amounts are shown in US dollars calculated at an exchange of C$11.58 cordobas to US$1 dollar.
*Savings refers only to deposit savings, not to credit union shares

Table 1 shows that 2,833 members held $718,837 in outstanding loans. The six credit unions had managed to mobilize $177,962 in local savings, 24.8% of the credit unions' outstanding loans.

Approximately 57.2% of the six credit unions' total loans were for amounts less than $500. Thirty-seven percent were poverty loans (or for amounts less than $300). Poverty loans were the largest category. Tables 2 through 4, below, show how the six credit unions' membership, loans, and savings had grown since the project's inception on June 30, 1996.

Table 2: Growth in Membership Since Start of Project

Members	6/30/96	6/30/97	6/30/98	2/28/99	% Growth Overall
La Moderna	410	504	714	909	122%
Integral	229	229	330	467	104%
Iaguei	91	108	309	453	398%
Dipilto	0*	480	596	582	-
La Unidad	0*	174	197	257	-
Masatepe	0*	155	155	165	-
Total	**730**	**1,650**	**2,301**	**2,833**	

* information not available

Table 3: Growth in Total Loans Since Start of Project

Loans	6/30/96	6/30/97	6/30/98	2/28/99	% Growth Overall
La Moderna	$59,691	$92,587	$150,395	$179,176	200%
Integral	$59,523	$85,351	$109,705	$120,677	103%
Iaguei	$5,632	$13,437	$33,331	$60,416	973%
Dipilto	$57,541	$124,597	$51,552	$230,098	300%
La Unidad	$17,629	$31,143	$90,761	$108,418	515%
Masatepe	$17,810	$19,508	$16,468	$20,052	13%
Total	**$217,826**	**$366,622**	**$452,212**	**$718,837**	**230%**

Note: Amounts are in US dollars

Table 4: Growth in Savings Mobilized Since Start of Project

Savings*	6/30/96	6/30/97	6/30/98	2/28/99	% Growth Overall
La Moderna	$1,671	$5,160	$19,327	$79,165	4637%
Integral	$859	$2,030	$8,613	$21,800	2438%
Iaguei	$0	$209	$31,308	$67,295	-
Dipilto	$0	$0	$0	$7,992	-
La Unidad	$0	$752	$1,856	$1,202	-
Masatepe	$0	$0	$0	$507	-
Total	**$2,530**	**$8,152**	**$61,104**	**$177,962**	**6934%**

Amounts are in US dollars

*Savings refers only to deposit savings, not to credit union shares

IV. MICROENTERPRISE ACTIVITY IN CREDIT UNIONS

This section presents an analysis of the credit unions' microenterprise credit activities, a description of the types of loans the credit unions offered, summary information about the six credit unions, the members' uses of microenterprise loans, and the six credit unions' lending strategies.

A. Analysis of the Six Credit Unions' Microenterprise Credit Activities

Approximately 52.6% of all six credit unions' loans were issued for non-agricultural microenterprise activities. Forty-eight percent of all the loans were made to women. Table 5, below, shows that the six credit unions made 694 microenterprise loans. Approximately 56% of the 694 loans were for amounts less than $500. Fifty nine percent of the loans of less than $500 were to women. Through microenterprise lending, the six credit unions were reaching more female borrowers than male borrowers.

Table 5: Six Credit Unions' Microenterprise Loans by Size and Gender as of March 1999

Size of Loan	Male (Number)	Female (Number)	Totals (Number)	Overall (Percent)	Male (Percent)	Female (Percent)
< 300	94	149	242	35%	31%	38%
301-500	64	82	146	21%	21%	21%
501-1000	57	67	125	18%	19%	17%
1001-2000	52	67	119	17%	17%	17%
2001-3000	12	24	36	5%	4%	6%
> 3000	22	4	26	4%	7%	1%
Total	**301**	**393**	**694***	**100%**	**100%**	**100%**

* The total number of microenterprise loans was actually 695, one loan did not report gender.

B. Types of Microenterprise Loans

The six credit unions offered four types of microenterprise loans: commercial, small industry, service, and transportation. Most of the microenterprise loans were commerce loans.

1. <u>Commerce loans</u>

Two types of microentrepreneurs used these 'trade' loans: retail vendors and goods distributors.

Retail vendors sold from stalls in municipal markets, stands on streets, and from a space in their homes. These 'stores', known as "pulperias," generally offered basic grains, rice, beans, oil, canned and packaged goods, and sodas. Commercial loans also financed vendors selling vegetables, meats, refreshments, clothing, shoes, household appliances, and handicrafts.

Goods distributors sold products wholesale for either household consumption or for agricultural production. For example, one applicant for this type of loan was a food distributor who purchased produce or grains from farmers and sold it to market vendors. Another example of a commerce loan applicant was a tire distributor who sold tractor tires and parts to farmers and agricultural cooperatives.

2. Small Industries Loans

'Small industries' referred to microenterprises that produced what they sold. These industries were engaged in agricultural-related activities (such as coffee processing enterprises) and non-agricultural production activity. These entrepreneurs sold their products to wholesale distributors, in the markets, in the streets, and out of their homes. The small industries produced a wide range of products – from 'export' items (such as handicrafts) to goods for local consumption (such as baked goods). Brick makers, cement block makers, artisans, furniture producers, weavers, shoemakers, seamstresses, bakers, candy producers and tortilla makers were examples of the small industries that had received these microenterprise loans.

3. Services and 4. Transportation Loans

Examples of microenterprises that received services and transportation loans included: "comedors" (food stands/eating establishments), beauty salons, taxis, van drivers, and transporters of goods and products to markets.

C. DESCRIPTION OF THE SIX CREDIT UNIONS STUDIED

1. La Moderna Credit Union

Formed in 1969, La Moderna experienced a rebirth in the 1990s. By the end of February 1999, La Moderna had 909 members. From June 1996 to February 1999, La Moderna's membership grew by 122%. Outstanding loans also grew by 200%. La Moderna raised $79,165 in savings. Savings increased because La Moderna succeeded in attracting people who had never had access to savings accounts to save with the credit union. La Moderna also attracted bank depositors. Table 6, below, shows La Moderna's microenterprise loans.

Table 6: La Moderna Microenterprise Loans

Loan Size	Male (Number)	Female (Number)	Total (Number)	Overall (Percent)	Male (Percent)	Female (Percent)
< 300	14	21	34	29%	22%	39%
301-500	6	9	15	13%	10%	16%
501-1000	13	8	22	18%	21%	16%
1001-2000	12	7	19	16%	19%	13%
2001-3000	4	7	11	9%	6%	13%
> 3000	14	2	16	14%	22%	4%
All	**63**	**54**	**117**	**100%**	**100%**	**100%**

Table 6 also shows that 29% of La Moderna's microenterprise loans were for amounts less than $300. Approximately 42% of the loans were for amounts less than $500. Women held 46% of the microenterprise loans.

Forty-four percent of the microenterprise loans were commerce loans, making this the largest category within the microenterprise loan portfolio. Commercial loans were made to market vendors, small stores, pulperias, distributors, ambulatory sellers of clothing and appliances in surrounding rural communities, and street merchants. Twenty-two percent of the microenterprise loans were transportation loans. La Moderna established a relationship with a taxi cooperative through which La Moderna lent funds to the taxi cooperative for the purchase and repair of vehicles. Most of La Moderna's transportation loans were with the taxi cooperative. La Moderna also had some small industries and services loans.

Recently, La Moderna initiated an 'automatic loan' program. By February 1999, almost 50% of the loans made by La Moderna were automatic loans. Loan application approval and funds disbursement were immediate. Automatic loans gave members an incentive to build savings (given that savings determined loan size), and enabled credit unions to retain more savings.

Although the purposes of automatic loans were not tracked, the credit union's manager estimated that 20% of the automatic loans were used for microenterprise purposes. Largely due to the automatic loans, 47% of its total loan portfolio was loans for amounts less than $300. Sixty-one percent of loans were for less than $500. Thus, La Moderna had an extremely strong record of making 'poverty loans.'

2. <u>Integral Credit Union</u>

Integral's original mission was to provide microentrepreneurs in Sebaco town with access to credit. Integral was founded by women and almost all the initial members were women. Integral joined the USAID/WOCCU Program in 1997. During that year, Integral opened its membership to any resident of Sebaco or the surrounding areas. The only membership requirement was a US$4 minimum deposit.

Since June 1996, Integral's membership has grown by 104%. Outstanding loans grew by 103% and $21,800 in savings was raised. By February 28, 1999, there were 465 members, just over 50% of which were women. Many of Integral's recruits were first-time members and borrowers, who had never had a savings account or access to a loan before.

Most members were microentrepreneurs. Seventy-six percent of all loans had been provided for microenterprise activities. Eighty-two percent were for commercial activities (such as market vendors, small stores, and street merchants). Ten percent were loans for service enterprises, and eight percent were for small industries. For example, a handicapped man recently applied to Integral for a loan. The loan was for starting a business making candies, baked goods, and sweets from his home. The entrepreneur sought to assist his wife in making ends meet. The credit union approved this small industry loan, and the business started.

Table 7, below, shows that approximately 28% of Integral's microenterprise loans were 'poverty loans,' and 52% are loans for less than $500.

Table 7: Integral Microenterprise Loans

Loan Size	Male (Number)	Female (Number)	Other (Number)	Totals (Number)	Overall (Percent)	Male (Percent)	Female (Percent)
< $300	25	19		44	28%	38%	21%
$301-$500	14	24		38	24%	21%	27%
$501-$1000	12	17	1	30	19%	18%	19%
$1001-$2000	8	18		26	17%	12%	20%
$2001-$3000	5	11		16	10%	8%	12%
> $3000	2	0		2	1%	3%	0%
Totals	**66**	**89**	**1**	**156**	**100%**	**100%**	**100%**

Fifty-seven percent (89 out of 156 loans) were made to female entrepreneurs. Thus, Integral had a greater concentration of larger loans to female entrepreneurs, demonstrating a longer history of women borrowers in the credit union, and a graduation of female borrowers to higher loan amounts.

3. <u>Iaguei Credit Union</u>

Iaguei is located in Corinto. Of the six credit unions, Iaguei lent the highest proportion of its portfolio, ninety-seven percent, to microentrepreneurs. Iaguei's founders wanted to serve microenterprise borrowers and although its management has maintained this emphasis, Iaguei also serves all Corinto and surrounding community residents. Iaguei joined the USAID/WOCCU program in 1997. Since June 1996, Iaguei's membership has grown by 398% and its outstanding loans have grown by 973%.

Iaguei serves 453 members. Most members had never interacted with formal financial institutions prior to joining the credit union. Some had obtained credit through governmental or non-governmental lending programs before, but switched to the credit union for greater convenience and better service.

Table 8: Iaguei Microenterprise Loans

Loan Size	**Male (Number)**	**Female (Number)**	**Totals (Number)**	**Overall (Percent)**	**Male (Percent)**	**Female (Percent)**
< 300	30	76	106	54%	45%	59%
301-500	13	20	33	17%	19%	16%
501-1000	11	21	32	16%	16%	16%
1001-2000	11	9	20	10%	16%	7%
2001-3000	0	1	1	1%	0%	1%
>3000	2	1	3	2%	3%	1%
Totals	**67**	**128**	**195**	**100%**	**100%**	**100%**

Table 8, above, shows that 54% of Iaguei's microenterprise loans were 'poverty loans.' Seventy-one percent were for less than $500. Female microentrepreneurs received 66% of the loans. Most loans to women were concentrated in lower loan amounts. Fifty-nine percent of the 'poverty loans' went to women.

By February 1996, 95% of Iaguei's members were vendors. This led Iaguei to specialize in commercial lending for microenterprises selling basic grains, coffee, rice, beans, fish, meat, refreshments, household goods, clothing, appliances, paper goods and much more. Many of these market vendors preferred to borrow small amounts for short terms. Because of this, Iaguei experienced a low level of loan graduation.

4. Dipilto Credit Union

Dipilto was founded in 1994 as a rural agricultural cooperative. Located in Northern Nueva Segovia, close to the Honduran border, Dipilto provides loans to rural, small-scale farmers and producers. Of the credit unions studied, Dipilto had the largest loan portfolio. By February 1999, Dipilto had $230,098 in outstanding loans. Outstanding loans had increased by 300% since June 1996. Dipilto joined the USAID/WOCCU Program in 1998. By February 1999, Dipilto was beginning to mobilize savings, and served 582 members.

After Hurricane Mitch destroyed Dipilto's office, Dipilto relocated to Ocotal, the neighboring town. Consequently, Dipilto was closer to a municipal market and a larger concentration of microentrepreneurs. The hurricane motivated some members in the agricultural sector to start microenterprise activities. These activities helped those members to recover from the hurricane's devastating effects.

Despite its agricultural roots, Dipilto experienced demand from non-agricultural microenterprises. Approximately 23% of Dipilto's loans supported non-farm microenterprise activities. Seventy-nine percent of these loans supported commercial activities, and 21% supported small industry (generally linked to agriculture). Dipilto was the only credit union that reported certain agriculture-related enterprise loans as microenterprise loans. Other credit unions tracked such loans as agricultural loans. Table 9, below, shows Dipilto's microenterprise loan activity.

Table 9: Dipilto Microenterprise Loans

Loan Size	**Male (Number)**	**Female (Number)**	**Totals (Number)**	**Overall (Percent)**	**Male (Percent)**	**Female (Percent)**
< $300	4	3	7	10%	12%	8%
301- 500	15	5	20	28%	44%	13%
501-1000	4	8	12	17%	12%	21%
1001-2000	9	20	29	40%	26%	53%
2001-3000	1	2	3	4%	3%	5%
>3000	1	0	1	1%	3%	0%
Totals	**34**	**38**	**72**	**100%**	**100%**	**100%**

Although only 27% of Dipilto's borrowers were women, 53% of all loans were made to female microenterprise borrowers. Since more loans went to women, it suggested that female members were proportionately more engaged in microenterprise activities. Like Integral, and contrary to the overall trend of credit unions studied, Dipilto had a greater concentration of larger loans to female microentrepreneurs.

According to Dipilto's manager, women had larger loans because of the types business and length of time the businesses had been in operation. Table 9 shows that 10% of microenterprise loans were 'poverty loans.' Thirty-eight percent were for less than $500. However, since 57% were between US$500 and $1,000, microenterprise loans were more concentrated in the higher loan amounts.

5. La Unidad Credit Union

La Unidad Credit Union was chartered in June 1995. Its mission was to provide credit to farmers in communities surrounding Yalanguina and throughout the region of Nueva Segovia. In 1996, the credit union began offering microenterprise loans. In February 1999, 47.6% of the loans were made to microenterprises.

All microenterprise loans were for commercial activities. The major commercial activities were local 'pulperias' and vendors selling to the outlying rural communities of Jalapa, Quilali, and Jicaro. Some borrowers also engaged in small industries like brick making and food production.

In 1997, La Unidad joined the USAID/WOCCU program in order to mobilize members' savings, and to reduce reliance on external credit. La Unidad served 257 members. Since 1996, La Unidad's loan portfolio has grown by 515%.

Poverty loans comprised thirty-six percent of La Unidad's total loan portfolio. Fifty-one percent were loans of less than $500. Table 10 provides a breakdown of the microenterprise loans by gender and loan amounts.

Table 10: La Unidad Microenterprise Loans

Loan Size	Male (Number)	Female (Number)	Totals (Number)	Overall (Percent)	Male (Percent)	Female (Percent)
< $300	7	10	17	22%	19%	24%
301-500	6	11	17	22%	16%	26%
501-1000	10	7	17	22%	27%	17%
1000-2000	9	10	19	24%	24%	24%
2001-3000	2	3	5	6%	5%	7%
> $3000	3	1	4	5%	8%	2%
Totals	**37**	**42**	**79**	**100%**	**100%**	**100%**

Of the microenterprise loans granted, 22% are 'poverty loans' and 44% are for less than $500. Fifty-three percent of the microenterprise borrowers were women. Female microentrepreneurs' loans were for smaller amounts – 50% were for amounts less than $500.

6. Masatepe Credit Union

Masatepe is an area in Nicaragua known for its artisans. In 1975, Masatepe Credit Union was formed. Its mission was to develop a source of financing for microenterprises. The credit union had since expanded its focus, but by February 1999, it still served microentrepreneurs. Ninety-eight percent of the 175 members operated microenterprises. Microenterprise loans constituted 88% of all loans.

Since June 1996, Masatepe had experienced the lowest loan growth rate (13%) of these six credit unions. Masatepe also had the fewest members (165) and outstanding loans ($20,052). Masatepe joined the USAID/WOCCU program in 1998, and by February 1999, it was beginning to mobilize savings, undergo physical remodeling, and implement a promotional campaign.

Because of the number of artisans, and the microenterprise activity in the region, the credit union had a strong potential for growth in financing microenterprise activities. By February 1999, 61% of microenterprise loans were for commercial activities. Twenty-four percent were for services, and 13% were for artisans. Because 33% of the borrowers were actually artisans, Masatepe had loan re-classification work to do. Like Iaguei, most of Masatepe's loans were for very small amounts. Overall, 50% of its loans were 'poverty loans.' Seventy-eight percent were for amounts less than $500. Table 11, below, shows that 45% of its microenterprise loans were 'poverty loans' and 75% were loans of less than $500. There were no microenterprise loans that exceeded $2,000.

Table 11: Masatepe Microenterprise Loans

Loan Size	Male (Number)	Female (Number)	Totals (Number)	Overall (Percent)	Male (Percent)	Female (Percent)
< 300	14	20	34	45%	41%	48%
301-500	10	13	23	30%	29%	31%
501-1000	7	6	13	17%	21%	14%
1001-2000	3	3	6	8%	9%	7%
2001-3000	0	0	0	0%	0%	0%
>3000	0	0	0	0%	0%	0%
Totals	**34**	**42**	**76**	**100%**	**100%**	**100%**

Women accounted for 55% of Masatepe's borrowers. Based on loan size, women also borrowed 55% of Masatepe's assets. By February 1999, Masatepe's operation was small, but exhibited potential for having an impact upon its borrowers.

D. USE OF LOANS

Microenterprise loans had two significant uses: (1) working capital; and (2) inventory or input purchases. The use of loans varied according to type of business, the stage of development, and the sector's business cycle. The four loan types were used as follows:

1. *Commercial/vendor loans* were used for (a) working capital; and (b) inventory purchases. The amount borrowers requested increased gradually as the business grew. Selling from their homes, vendors periodically obtained large, longer-term loans for physical improvements. These vendors remodeled their houses, and purchased fixed assets (such as refrigerators) that allowed them to offer new products.

2. *Small industry loans* were used for infrastructure development, and for purchasing equipment, raw materials, and working capital.

3. *Service loans* were used for purchasing inputs (such as food products for stands and restaurants, or hair-care products for beauty salons). Larger, longer-term loans financed physical improvements, decorations and additional seating or space.

4. *Transportation loans* were used to purchase and repair taxis, and for trucks. Trucks transported agricultural goods from rural to urban areas, and various goods from urban to rural centers.

E. CREDIT UNION STRATEGY OF LENDING

Each credit union studied tightened their loan policies and criteria prior to mobilizing savings. Consequently, delinquency rates reduced considerably. The credit unions based their lending strategies on: (1) Character; (2) Capacity to Pay; (3) Collateral; (4) Capital; and (5) Conditions.

Strategy 1: Flexible Lending for Very Small Borrowers
The credit unions' mission was to serve those individuals who did not have access to credit. Dipilto Credit Union was fondly referred to by board members and borrowers alike as the 'Bank of the Poor.' Thus, the challenge was to develop lending methods to reach the unserved, while maintaining high performance standards and members' savings security. To meet the challenge, the credit unions developed flexible implementation methods to evaluate very small borrowers:

- *Character*: The credit unions relied on the person's prior repayment history. Borrowers, who either had experienced difficulties in the past, or had no repayment record, were lent very small amounts. These borrowers were informed that, with good repayment histories, they could borrow larger amounts.
- *Capacity to pay*: Because many microentrepreneurs do not keep records or accurate information of enterprise earnings, credit union staff visited businesses. Staff determined the entrepreneur's ability to repay loans. Staff also evaluated the business' size, sales and location to estimate its capacity to generate revenue to repay the loans. If staff determined that the microenterprise was not capable of repaying the loan amount requested, the credit union offered a reduced loan amount that better fit the borrower's capacity to pay. Iaguei's staff gathered, daily, information on business income, amounts invested, and the microentrepreneurs' debt. They also reviewed personal information – the number of children in the household, other income, and total expenses. Microentrepreneurs' businesses were completely wrapped up with the household, so household information was important. By offering a smaller loan, the credit union helped the microentrepreneurs learn to manage capital more effectively.
- *Collateral:* The credit unions accepted a wide range of collateral. For loans of less than $500, credit unions accepted household items (such as furniture, refrigerators, tools, beds and livestock), and business merchandise. La Moderna management stated that collateral assured them that the microentrepreneurs felt committed to

repay the loan. Co-signers were the alternative to collateral, guaranteeing loans less than $500. Such flexible criteria allowed the credit unions to approve 98% of their loan applications.

Strategy 2: Customized Repayment Schedules

Upon approving the loan, credit union staff discussed the loan repayment plan with the borrower. The plan was customized to the borrower's needs and business. In general, microenterprise loan repayment occurred bi-monthly, monthly, bi-weekly, weekly, and daily. For example, 30% of Iaguei Credit Union's loans had daily repayments. Twenty percent were weekly, and 50% were bi-weekly. Some of Iaguei's borrowers had daily incomes and expenditures. These individuals preferred to incorporate loan repayments into their daily accounting. For these individuals, Iaguei was able to closely monitor loan repayment. Iaguei staff walked through the market each day, collecting on loans coming due that day. In Masatepe, few borrowers took advantage of daily repayment options. Because of the cash-flow of the artisans' business, monthly terms were preferred. Such schedules attracted members from low interest, weekly-repayment programs, to Masatepe's monthly repayment services.

Strategy 3: Informal Stepped Lending

Based upon the evaluation of character, capacity to pay, and quality of collateral, many borrowers were offered reduced loan amounts. Starting with small loan amounts helped entrepreneurs to learn how to manage and strategically invest capital. As they grew their business and applied for additional loans, they often obtained increasingly higher loan amounts. The loan review process allowed the credit union staff to evaluate the business' growth, and the borrower's ability to repay the higher loan amounts. Those businesses that were not able (or not willing) to grow could only receive small loans – a process known as informal stepped lending.

The advantages of informal step lending, to both the credit union and the business, were that:

- Credit unions got to know the borrower, and were better able to evaluate higher loan risks.
- Entrepreneurs who were not previously experienced with credit learned how to manage increasing levels of capital.
- Microentrepreneurs chose the rate at which they grew their loan amounts. Some entrepreneurs decided to remain at a low credit level, while others moved rapidly to higher loan amounts. By demonstrating ability to repay loans, and providing collateral, microenterprises could apply for larger loans.
- Businesses could informally match loan amounts with their business cycle. Some borrowers had loan histories that, indeed, started with small loans to purchase merchandise and inventory. At a certain stage of growth, a large loan was obtained for physical improvements or expansion of the business. Following this expansion, the business reverted to lower loan amounts (although generally higher than the initial loans).

V. FILLING A CREDIT GAP

Through this combination of flexible lending and customized repayment schedules, credit unions in Nicaragua were filling a critical niche for microentrepreneurs that were not served by conventional financial institutions. Banks were not serving these members because: (1) loan sizes were too small; (2) collateral requirements were too high for small borrowers; and (3) considerable documentation requirements translated into high borrower transaction costs.

Some access to credit was available through government and non-governmental organizations' credit programs for microentrepreneurs in Esteli, Corinto, Masatepe and Sebaco. FAMA and ProMujer offered group lending programs in Corinto. Although these groups charged lower loan interest rates, credit union members had withdrawn from these credit programs.

Members stated that credit unions offered convenience, flexibility to borrow small amounts, and their choice of manner of payment. Members had been frustrated by the lending requirements of group lending programs they had participated in previously. They had participated in solidarity groups, and had the troubling experience of paying another person's loan(s). For example, one microentrepreneur in Corinto had to cover loans of other group members twice. In at least one case, the entrepreneur explained that a group member had been able to repay the loan, but simply refused to do so. In Esteli, a borrower was required to make payments on a loan that a friend of her son had taken, and then left town. As a result, she had to put her business expansion plans on hold. In these cases, members stated that their own businesses' progress was constrained by those that either could not or did not repay.

Summary

Flexible loan products helped credit unions meet the needs of poor microentrepreneurs. These loan products made small amounts of credit available. As credit unions (and their members) grow, competition with banks to offer larger and longer-term loans, will increase. It is, nonetheless, important for credit unions to continue to offer flexible and customized small loan products for poor borrowers.

VI. IMPACTS

This section assesses business growth prior to Hurricane Mitch. Because many of the microenterprises were affected both directly and indirectly, entrepreneurs were initially asked to describe the impact of credit prior to the hurricane.

A. IMPACT OF CREDIT UPON MICROENTERPRISE GROWTH

Twenty-four entrepreneurs were interviewed. Only two reported no business growth since they obtained credit union loans. One of the two reported a decline, while the other reported no growth. The entrepreneur attributed his business decline to an overall decline in the wood transporting industry. The entrepreneurs who experienced growth measured it in terms of expansion of products and services offered to customers, merchandise turnover, and changes in profits, sales, and customers.

1. Expansion of Products and Services

   Microentrepreneurs measured growth primarily by product and service expansion. Twenty-two borrowers reported that credit allowed them to introduce new products, produce greater volume, and serve more customers. Expansion was particularly evident among commercial activities. Commercial vendors used credit primarily to introduce new products and to purchase additional merchandise.

   Seven years ago, Cecilia Pavon started a small business selling gum and candy from a room in her home to earn extra income for her family. She joined the Masatepe credit union four years ago. Her first loan enabled her to test out new products in her business. Since then, she has taken out five additional loans for terms of seven months. She continued to use loans to test new products in the store. Last year, Cecilia used a credit union loan and earnings from the business to build an extension to her home in order to house the store. She sold basic grains, rice, beans, fresh produce, refrigerated goods, candies and baked goods. She measured her success from the expanded products she offered, the new customers they attracted and the sales increases that resulted.

2. Turnover

   Some entrepreneurs measured business growth primarily through merchandise turnover. Vendors observed how quickly items sold to determine which items were most popular, and to increase the inventory of those items. Monitoring item sales was also used as a means to assess sales growth. Monitoring sales growth in this way could be misleading if each product's turnover rate was not individually tracked. Thus, credit enabled the entrepreneurs to buy larger quantities of high turnover items. Some of Iaguei's borrowers used a formal inventory tracking system.

3. Profitability

   A few entrepreneurs calculated monthly profits. Entrepreneurs used their profits for various microenterprise activities carried out by the household, and for household expenses. Only one of the 24 interviewees distinguished the income from the different household income-generating activities. Distinguishing the income enabled him to discontinue unprofitable activities. Market vendors made daily profit estimations using amounts spent on purchases of goods in the morning, sales throughout the day, goods left over at the end of the day, and amounts sold. Because some days were better than others, decisions on purchases for the following days, or the need for credit, were based upon profit. It is for this reason that many market vendors preferred to make daily loan payments.

4. Changes in Sales and Customers

Microenterprises, in the service and transportation sectors, tracked customer growth as a means of measuring business growth. For example, Celia Gonzalez opened a comedor (food stand) four years ago on a busy intersection in Sebaco. Ms. Gonzalez's credit union loans were used for physical improvements of the business. She increased the space dedicated for customers, and made it more visible from the street. She measured the growth this space catalyzed, in terms of customers. She served up to 30-35 people during peak hours (breakfast, lunch and dinner), and a steady stream throughout the day.

B. ADDITIONAL IMPACTS OF CREDIT

Microenterprise loan services increased microentrepreneurs' profit margins, strengthened their ability to bargain, changed their business attitude, and allowed members to graduate to higher loans.

1. Increased Profit Margins

Many entrepreneurs evaluated the impact of credit on the microenterprise's profit margin. The profit margin was determined in two ways:

- *Reduced costs of inputs* – Market vendors and pulperias were able to obtain discounts for purchasing goods in bulk, and for cash payment. Prior to obtaining credit union loans, vendors and small producers purchased goods and inputs on credit from distributors. Distributors offered 15-30 days of credit, which could carry interest rates (and increased product cost by up to 10%). Microentrepreneurs could pay distributors annual interest rates as high as 120%. On the other hand, credit unions' loan interest rates varied between 22% - 36% (including inflation, which was on average, 12% per year). Thus, the immediate impact of the credit was that it enhanced enterprises' profit margins.
- *Obtaining higher prices on goods* – Business growth and higher profits were linked to the price products commanded. Prices were often set by intermediary traders and could vary with season, and fluctuations in product demand and supply. Many entrepreneurs that traded goods were price-takers. Intermediaries provided producers with an advance to purchase inputs and labor, thereby tying the producer to the price negotiated by the intermediary. With sufficient credit, the entrepreneurs could 'wait for their price.'

Miguel Alvarez, a wicker furniture craftsman in Masatepe, depended on intermediaries that exported his furniture pieces to Panama and Costa Rica. For the past 18 years in the business, Miguel has produced for immediate sale. The earnings are invested into inputs and labor for the next job. Upon finishing a furniture set, Miguel took the best price he could find. But he noticed that prices fluctuated substantially throughout the year. With loans from the Masatepe Credit Union, Miguel began to purchase additional inputs to produce furniture that he would store until the prices rose. As he worked up to higher loans, he used them for working capital to help him increase an inventory of furniture to sell at peak prices.

2. <u>Strengthened Position</u>

   Access to credit offered microentrepreneurs the opportunity to challenge and alter their power dynamics with suppliers and purchases. Vendors negotiated better prices for merchandise, or traveled to additional locations to purchase less expensive goods. Artisans using credit toward working capital were in a stronger position to establish their prices on finished products.

3. <u>Attitude Toward Business</u>

   Credit encouraged microentrepreneurs to think strategically about their businesses. Several microentrepreneurs stated that they now considered how they would invest their future loans. Credit provided opportunities to consider what the businesses needed to grow and expand.

   Nelly Gutierrez had operated a beauty salon from her home in Sebaco, styling and cutting her neighbors' hair for the last 35 years. She has been able to make a steady living from her business, which she ran from her home. In recent years, with credit union loans, she developed a side-line business of retailing hair-care products. Due to general economic hardships, she began to notice a slight decline in the visits of her regular clientele. As a result, Nelly developed a plan to use her next credit union loan to remodel the space she dedicated to the business. She planned to create a formal waiting room to attract a broader range of new customers to her business.

4. <u>Graduating Borrowers to Higher Loan Amounts</u>

   All microenterprises interviewed had increased their loan amounts over time. However, increases did not occur through successive loan growth. Many microentrepreneurs (particularly vendors) were conservative in their business growth, and did not seek loan amounts that expanded the business beyond their comfort level. These businesses experienced loan growth over time but not with each successive loan.

   Other entrepreneurs had loan histories showing level lending, followed by sharp increases, followed by level loan amounts (at slightly higher rates). These loan patterns more accurately reflected dynamic business cycles, with periods of expansion preceded and followed by steady levels. This pattern varied according to the business, and to the personality of entrepreneurs.

   Nine years ago, Marta Urbina opened a small general store, from her home in Esteli, to help make ends meet for her family. Marta obtained eight loans from the La Moderna credit union. She started with loans of approximately $200 - $300 to purchase basic goods. Two years ago, she borrowed approximately $2,500 to remodel her home and expand the area devoted to the store. Now Marta borrows an average of $500, for working capital and the purchase of inventory. Recently, her husband obtained a large loan to purchase a truck to start a business transporting goods to and from the capital. When this loan is repaid, Marta planned to seek a large loan to expand the business more.

Loan cycles followed the cycle of both the enterprise and the household. As households went through stages of investment and maintenance, loan amounts fluctuated.

After several years of obtaining very small loans for her refreshments business in the Corinto municipal market, Marixta Ayala obtained a large loan ($1,000) from Iaguei Credit Union. She used this loan to start a new business in the market, which she hoped to turn over to her daughter. After paying off this loan, Marixta planned to assume a loan for her refreshments business.

C. IMPACTS OF OTHER FINANCIAL SERVICES

Credit union services also mobilized savings and increased loan services.

1. Savings Mobilization

Most entrepreneurs interviewed had not held a savings account at a financial institution before opening an account with the credit union. Mobilizing savings is beneficial to members in the following ways:

- Household and Enterprise: Members, with no previous savings experience, held money in their homes, and/or reinvested earnings immediately in their businesses. Holding money at home caused security problems, and increased the threat of theft. Moreover, money at home lost value over time due to inflation. Due to safety concerns, many entrepreneurs maximized the amount of earnings reinvested into the enterprise. This caused problems for households during periods of emergency, when there was a greater need for liquid assets. It could also cause microentrepreneurs to sell off productive assets to obtain cash. Selling such assets reduced the entrepreneurs' ability to make strategic investments.
- Community: Within the past two years, credit unions mobilized close to $200,000 in savings. As member-owned and controlled cooperatives, local members controlled community assets. Consequently, the communities increased their self-sufficiency, and decreased their reliance on external support.

2. Loans for Other Than Business Purposes

Many credit unions in Nicaragua offered personal loans. Personal loans enabled credit unions to reach a broader segment of their community. These loans also provided an indirect source of support to microenterprises. Rather than withdrawing savings, or liquidating assets from the business, entrepreneurs could obtain personal loans for household expenses and emergencies.

Luis Enrique Vasquez sold clothing and appliances in Esteli. Luis, like many microentrepreneurs in Nicaragua, reinvested most of his earnings back into the business. He found that he was often unable to cover family and household related expenses that came up without substantially tapping sales revenue for that month. Personal loans from La Moderna credit union helped him to pay for housing repairs, education, school uniforms and other necessities without de-capitalizing the business.

Summary of Impact

Overall, access to credit and other financial services had a positive impact on microenterprises' sales, production, profit margins, negotiating position, and graduation to higher loan amounts. Microenterprises employed a variety of measures to determine business growth. These measures did not discern the degree to which the enterprise maximized the households' profits. Tracking the income levels, over time, of households that managed microenterprises would provide important data to determine households' actual earnings growth. Gathering this data would require a greater capacity among borrowers to accurately account for monthly income.

There was a need for microenterprises to obtain further credit training and assistance. While it was not necessarily feasible for credit unions to undertake this training directly, they could choose to either identify local sources of training, or develop in-house loan officer expertise. Such experts would enable the credit unions to counsel clients as they make and monitor micro-enterprise loans. Assistance should be appropriate to the needs of the microenterprise and the borrower's education level.

VII. EFFECTS OF HURRICANE MITCH ON MICROENTERPRISES

This section describes the effect of Hurricane Mitch on the region, microenterprises and agricultural borrowers.

A. EFFECTS OF THE HURRICANE ON MICROENTERPRISES IN THE REGIONS MOST AFFECTED

All microenterprises (regardless of location) reported a decline in enterprise activity immediately after Hurricane Mitch. The effects ranged from loss of property, inventory, tools and equipment, to a drop in sales. Clearly, those enterprises located closest to the affected areas suffered the greatest losses, and longer periods of depressed sales, particularly the sales of clothing, appliances, and household goods.

Microentrepreneurs directly affected by Mitch lost homes (where businesses operated), an oven (for brick making), tools, equipment, and inventories. In other cases, the enterprise was not directly affected, but the household lost a portion of its income from other activities, primarily in agriculture. The microenterprises that were most affected by Hurricane Mitch were:

- *businesses with a customer base of rural, agricultural households*: Overall, the greatest effects of Mitch occurred among agricultural producers. The hurricane destroyed agricultural crops, livestock, and equipment and devastated the land by removing fertile top-soil. Businesses with a primary customer base of agricultural households, experienced more difficulties rebuilding prior sales levels.
- *commercial enterprises of non-essential items* (such as clothing and appliances) *or providers of non-essential services* (e.g., beauty salons). For example, La Unidad credit union members in Yalanguina sold clothing and appliances in rural communities surrounding the town. These enterprises continued to face a long-term decline in sales as of April, 1999.
- *businesses that sell on credit*: These microenterprises suffered the same liquidity crunch that credit unions themselves faced. Hurricane Mitch created high delinquencies and defaults. The enterprises were unable to rebuild their inventories until they could collect on money owed to them.

Ronald Robleto sold tires primarily for tractors and trucks. He purchased tires, wholesale, and sold them, retail, to individuals and agricultural cooperatives. Ninety percent of his sales were on credit. Since Mitch, he has been unable to collect on approximately US$11,000 in credit. His business came to a halt because he was unable to replenish his supply of tires, repay his own loans and continue sales.

B. Effects of Hurricane Mitch on Microenterprise vs. Agricultural Borrowers

Overall, microenterprise borrowers appeared to be less affected by the hurricane than agricultural borrowers. The microenterprises were better able to resume operations. The diagnostic analysis prepared by USAID/WOCCU project staff indicated that 25.9% of the commercial microenterprise loans were in danger of default. By April 1999, all microenterprises interviewed (that suffered losses in October in terms of home or business locale, inventory and equipment) were operating, albeit at a decreased level. Resuming operations provided a slow, but steady, cash-flow for the household. Microenterprises appeared to require less of an investment of capital, in order to resume operations, than the agricultural producers. People interviewed, from households engaged in more than one income-generating activity, had been in a better position to rebound in the aftermath of Hurricane Mitch, than households only engaged in agricultural activities.

> Concepcion Gomez operated a little shop in Yalanguina, Nueva Segovia, selling baked goods out of a room in her home. The business supplemented the income her husband earned cultivating beans, rice and vegetables. Hurricane Mitch destroyed most of the crops, and more than half of the family's land. Her husband now works alongside her in the business. The business had given them enough to live on and support their family, while they restored the land and prepared for next year's planting.

Many were not so lucky:

> Angela Lopez Casco and her husband obtained a loan of approximately $150 for seeds to grow corn and beans on their 4½ manzanas of land. The hurricane

destroyed the crops that would have provided the family with the money to repay the loan and sustain themselves. This left them with nothing. Her husband found day work repairing the roads, but this work was temporary. Angela does not know how long her husband's job will last. She hopes that they will be able to recover their losses during the next harvest. But they will not be able to replant for another six months, and the harvest will not be until next year.

Still others have developed new enterprises since the hurricane out of necessity:

Antonio Oliveras, a member of Dipilto Credit Union, created a way to "spin sand into gold." Hurricane Mitch completely destroyed 3 manzanas of land that produced coffee and beans. The floods and mudslides cut a hole in the earth, barely missing the Oliveras' home. The floods took the top soil and left a deep canyon-like trench of sand and pebbles. In the aftermath of the destruction, Antonio sought to recover the family's earnings any way possible. Assessing the damage of sand and pebbles, Antonio had an idea. He purchased a cement press, and started a microenterprise making cement blocks from the sand. The construction of roads and homes provided a steady demand for this new industry, and allowed Antonio to employ several young people in the community in the production and sales of the cement. With two cement presses, he made 70 blocks a day, and by April, 1999, he had sold 500 blocks. With a profit margin of one cordoba for each block, Antonio began to recoup some of his losses.

<u>Summary</u>

Credit unions explored strategies to diversify their loan portfolios and limit their risk. Household members affected by Hurricane Mitch indicated plans to pursue a strategy of diversifying income-generating activities among family members to limit future risk of losses to the household.

VIII. RECOMMENDATIONS

A. Documentation of Micro-finance Activities

Based upon the definition of microenterprise provided in this report, the USAID/WOCCU project should develop a comprehensive system of tracking financial services to microentrepreneurs. The 'loan destination' measure changes slightly from institution to institution. While loan activity was an important measure, it does not capture the level of savings accumulated by microentrepreneur members. It undercounts the other services microenterprises used, such as loans obtained by entrepreneurs for other purposes (i.e., personal, home renovation, etc.).

1. <u>Tracking Microentrepreneur Savings</u>

The membership application should include questions regarding the member's primary occupation, and whether the member was engaged in a farm or non-farm microenterprise activity.

2. Tracking Loan Graduation Systematically

Loan data for each borrower should specify the loan number (first, second, third, etc.). This would enable the project to track loan growth (decline) over time.

B. STRENGTHENING CREDIT UNION CAPACITY

As microenterprises grow and flourish, credit unions will need to increase their loan amounts to meet their needs. Credit rationing still constrains some credit unions' maximum loan amount limits. These limits constrain borrowers' ability to grow. These entrepreneurs often seek bank loans for these higher amounts. However, higher loan amounts to microentrepreneurs and graduating small microenterprises require improved loan analysis among credit union personnel. Higher loan amounts will need more in-depth analysis of the capacity of an individual to repay the loan, the loan use, the projected cash-flow, and income statements.

C. CONTINUING TO TARGET THE POOR

The challenge for credit unions will be to continue to reach very small microentrepreneurs and the poor. Reaching poor borrowers with very small loans is part of the credit unions' mission and is also part of maintaining credit unions' market niche. The flexible loan process will ensure that small borrowers have adequate access. Credit unions will need to continue to promote and market flexible loan processes and products to ensure that they continue to serve members among the poor. The USAID/WOCCU project should train credit unions in the implementation of new, flexible loan products.

Appendix
Case Stories of Microenterprise Borrowers

<u>Masatepe</u>

<u>Miguel Alvarez Calero</u>

Miguel Alvarez produced wicker furniture from his small workshop in Masatepe. For the past 18 years, Miguel has produced elaborate furniture sets that are ultimately exported to Panama and Costa Rica. He works for himself but shares his workshop space with two other furniture craftsmen. When they have numerous orders, the partners work together to complete them and occasionally hire one or two others temporarily.

When he started in the business he worked as an apprentice to another craftsman for several years to learn the trade. It was through this experience that he was able to make the necessary contacts to strike out on his own. Miguel depended on intermediaries to purchase furniture sets locally and export it. Furniture orders are generally made for sets: a chair set includes four chairs and a coffee table; a sofa set includes a sofa, two chairs and a table.

Prices for the furniture fluctuated substantially throughout the year given the demand for furniture abroad and the local supply. On average, Miguel was be able to negotiate a price of US$200 for a furniture set. This is then resold abroad for three to four times that price. Despite the additional transportation and export costs, Miguel believed the intermediaries take advantage of small producers like himself. He believed artisans are being squeezed by their inability to shop around for the best price for their products.

Miguel reinvested most of his earnings into inputs and labor for upcoming jobs and used the remainder to cover his household expenses. Four years ago, Miguel became involved with the Masatepe cooperative. He attended an orientation that the cooperative provided about its loans. Initially, he obtained very small loans that he used for a side-line business. He had reached a loan size of approximately $600 which he invested in the furniture business. With this loan, Miguel began to purchase additional inputs to produce furniture that he hopes to keep in storage for periods when prices peak. This will enable him to command higher prices and begin accumulating greater sums of capital to grow the business. To date, his loans have remained relatively small but with each loan he increases his amount. He had never received a loan from any source before and did not have a savings account. He had previously held a savings account in a bank in Jinotepe but withdrew it to buy materials. He reinvested earnings from his business into raw materials, primarily in the purchase of the wicker.

<u>Alfonso Trinidad Zelaya Gutierrez</u>

Six years ago, Alfonso Zelaya opened a small butcher shop in Masatepe. It was the first business he had ever owned. Growing up, his father had owned a shoe business where he made shoes for sale. He obtained a good location for the butcher shop across the street from the municipal market and soon began increasing his sales and his customers. About the same time, his wife began selling clothing out of their home.

One year later, he joined the Masatepe cooperative and obtained a small loan of approximately $400 to travel to Panama with his wife to purchase clothing from the free-trade zone. With the loan, they could purchase clothing less expensively to resell from their home. Through a combination of credit union loans and earnings from the meat business, he and his wife established a steady customer base for their clothing business. Since the business was out of their home, they grew little by little as word-of-mouth brought them increasing numbers of customers.

Two years ago, the Zelayas had earned enough to purchase the storefront next to the butcher shop and an empty lot that stood next to it. They converted the storefront into a clothing store and next to it they built a new home. From their spot next to the market, customers for the clothing business expanded dramatically. The proximity to their home allowed them to keep both businesses open for longer hours for greater convenience to their customers. Over the last five years, Alfonso has taken out a total of ten loans from the credit union to meet the needs of their growing businesses. The loans range from $400 to $2000 with an average term of 7 months.

Loans for the clothing business were used to purchase inventory and to finance travel to Panama four or five times a year. The loans allowed him to increase his inventory prior to the busy seasons such as Holy Week, patron day festivals, mother's day, back-to-school season and Christmas. Credit union loans for the butcher shop have been used to purchase livestock at auctions and to store and feed them before slaughter.

Most recently, he obtained a bank loan of US$5000. This exceeded the credit union's maximum loan limit of US$2600. The documentation required for a bank loan was prohibitive when Alfonso first started out. Although he pointed out that if the limit was raised, he would prefer to borrow from the credit union. The Zelayas' next planned enterprise is a small supermarket next to the butcher shop.

Cecilia Pavon

Seven years ago, Cecilia Pavon started a small business selling gum and candy from a room in her home to earn extra income for her family. She joined the Masatepe credit union four years ago and obtained a loan to test out new products in her business. Since then, she has taken out five additional loans for average terms of seven months. Her initial loans were very small, approximately $400 each. In general, she used loans for working capital while trying out new products in the store.

Cecilia sold basic grains, oil, rice, beans, fresh produce, refrigerated goods, candies and baked goods. She measured her success not only from the expanded products, but the new customers they attracted and the increase in sales that resulted. Last year, Cecilia took out a credit union loan to build an addition to her home to house the store. With her most recent credit union loan of $1000, Cecilia purchased rice, beans, corn, basic grains and oil in bulk to obtain discounts. She purchased directly from produce trucks in Masaya twice a week. She took a bus there early in the morning and paid for transportation back on a pick-up truck. She was able to purchase refrigerators with her earnings which allowed her to sell soda, ice cream, and other frozen products.

The store was located on a main road that leads into Masatepe from outlying rural communities. Many of her customers previously walked past her store on their way to the market in Masatepe. Now that they can find what they need at her store, it is more convenient to stop and buy there. Cecilia recently opened a savings account at the credit union. This is the first time she has ever had a savings account. Prior to this, she reinvested her earnings into the business or kept it in cash in the house if she needed to save to purchase something. Now she felt more secure knowing that her money is in a savings account and her savings earns interest.

La Moderna
Marta Amparo Urbina
Nine years ago, Marta Urbina opened a small general store from her home in Esteli to help make ends meet for her family. She sold small items purchased at the municipal market. She has obtained eight loans from the La Moderna credit union. She started with loans of approximately $150 - $200 to purchase basic goods. Two years ago, she borrowed $2000 to remodel her home and expand the area devoted to the store. Now Marta borrows an average of $400 for working capital and the purchase of inventory. Recently, her husband obtained a large loan to purchase a truck to start a business transporting goods to and from the capital. When this loan is repaid, Marta plans to seek a large loan to expand the business more.

Several years ago, Marta obtained a loan from a non-governmental credit program. She was required to borrow along with a group of other entrepreneurs. One of the group members, a friend of her son, took out a loan and then left town. As a result, she had to put her plans to expand her business on hold. She believed that group lending forces businesses that are making progress to be held back by those that either cannot or do not repay their loans.

Elena Argentina Obregon
Elena Obregon was a single mother supporting two children with her business as a seamstress. She primarily produced uniforms for children to wear to school. Ms. Obregon joined the La Moderna cooperative to obtain financing to grow her business. She took out a total of six loans. She first started borrowing amounts of $150 from the cooperative which she invested in the purchase of fabrics for the business. She had a loan of $600. She has been on-time in all her payments.

The loans allowed her to increase the amount and variety of fabrics that she uses and therefore, to offer a greater variety of clothing and styles for her business. Over the past years, she has experienced an increase in both her sales and her profits. From 1997 - 1998, Ms. Obregon reported an increase of $50 in monthly income from her business.

Juan de Dios Manzana Espinoza
Juan de Dios Manzana was a distributor of rice, beans, sugar, oil, salt, coffee and basic grains, soap and detergent. His clients were small market vendors and 'pulperia' owners. Customers purchased items from him wholesale and resold them throughout the neighborhoods and communities surrounding Esteli. While visiting the business, one vendor/customer was purchasing grains, rice and beans to sell in the rural community of Miraflor outside Esteli. She purchased most of the items in her store from Juan.

Juan has been affiliated with La Moderna credit union for 20 years. He had recently obtained two loans from the credit union. The first was an 18 month loan of $7000 for the construction of a warehouse, and the second a $4,000 loan for inventory/merchandise. This allowed him to purchase more of his merchandise with cash, thereby reducing the price.

He offered products on credit to vendors that he knows to be good risks. He did not charge more when selling on credit to his customers. He preferred to have people purchase in bulk from him and believes offering credit allows them to do that. He would like to see more vendors get involved with the credit union and obtain larger loans so they may buy greater quantities. This not only helps their businesses, but his as well. His earnings came from the volume of merchandise moved. The greater the ability of the vendor to buy in bulk, the better for him as a distributor. His business was marginally affected by Hurricane Mitch because it lowered the purchasing power of people in the rural communities. This had a ripple effect, as vendors purchased less from him.

Luis Enrique Vasquez

Luis Enrique Vasquez sold clothing and appliances door-to-door in Esteli. He had been in the business for almost six years. He has been affiliated with La Moderna credit union for more than 25 years. There was a time when the credit union was not really operating. However, about six years ago, when the credit union became active again, Mr. Vasquez returned. Since then, he had obtained three loans for approximately $1500, $2000 and $4000. The first two loans were for personal needs. Because like many microentrepreneurs in Nicaragua, Vasquez, reinvested most earnings back into the business, he was unable to cover family and household related expenses that came up without substantially tapping into sales revenues for that month. Obtaining personal loans from the credit union allowed him to pay for housing repairs, education, school uniforms and other necessities without de-capitalizing his business.

He invested his most recent credit union loan directly in the business. The loan allowed him to purchase new clothing with cash. Had it not been for this loan, he would have had to pay on credit which increases the price of the products by approximately 10%. This type of credit was generally for 15 - 30 days. Clothing purchased on 30 day credit with a 10% increased price would carry a 120% annual interest rate. By making large-scale purchases with a credit union loan, Vasquez was able to increase the amount of clothing and appliances he had available to sell. He sold for cash and offered credit to households unable to pay the whole amount. Over the years, Vasquez had grown his business through increased customers and sales.

He used to hold a savings account with Banco Popular, but since the credit union began offering savings accounts last year, Mr. Vasquez closed his account with the bank and transferred his savings to the credit union. He explains his decision, "I guess I was a bit resentful of the bank. When I had gone to them for a loan, they denied my application. The credit union has been there for me and others like me, so when they started offering savings accounts I moved my money." Mr. Vasquez' business has been effected by Hurricane Mitch. Many of his rural customers have been unable to pay off their credit to him. This limited his earnings and his ability to purchase new items. It also temporarily shrunk his customer base. He remained confident that his customers will repay when they have enough to cover their basic needs.

Integral

Ronald Robleto

Ronald Robleto lived just outside Sebaco with his wife and two children. Five years ago, Ronald opened a tire distribution business. He sold primarily to small farmers and farming cooperatives. His business had been growing steadily over the last five years and at its peak offered a large variety of tires. He had been a member of Integral Cooperative for eight years, his wife for more than 20 years. Ronald became involved with the cooperative when it reactivated and expanded beyond its initial focus on women borrowers.

He believed that the key to growth for microentrepreneurs in Nicaragua was access to credit that they controlled. Ronald had been an entrepreneur all of his adult life. He began with a small pulperia and gradually grew the business. He obtained his first cooperative loan for $250 to start a butcher shop selling refrigerated meats. After a few years, he decided to sell that business because there was too much competition in Sebaco. With the money from the sale, he opened the tire distribution business. He purchased the tires directly from the large companies in Managua and retails the tires in Sebaco and in rural, agricultural communities. He had a convenient location alongside the highway to Esteli, although most of his sales growth resulted from visits that he made to farmers and cooperatives directly to place orders. Approximately 90% of his sales were on credit. In turn, much of the inventory he purchased was also on credit. The terms of the credit are generally two to three months. When he has been able to purchase the tires with cash, they were approximately 10% cheaper. Thus, if he could pay cash, he could reduce his retail price slightly and be more competitive than some of the larger tire distributors. His profit margin was also slightly higher and 'he came out a little ahead.'

Ronald had a loan from Integral Cooperative for $2000. This allowed him to expand his merchandise and purchase inventory with cash which gave him a better rate of return and a longer term for repayment of principal. The business had suffered considerably in the aftermath of Hurricane Mitch. Because so much of his sales were on credit, his customers who lost their harvests, land and equipment were unable to pay off their credit. Ronald estimates that he initially had more than $20,000 owed to him. Over the last several months, he had managed to reduce that to a little over $11,000 in delinquent loans. Since he had been unable to collect on his loans to the farmers, he had to seek extensions on his repayment of loans (both to the credit union and to distributors). Some of the commercial companies allowed this, but they have not allowed him to obtain further amounts of tires or credit to sell. His inventory has been vastly depleted and until the debts were repaid, he feared that without additional capital, he would be unable to begin rebuilding the business.

Seeking ways to address this, Ronald and his wife moved the depleted tire inventory from the large warehouse building they own and condensed it into a side room adjacent to the building. The Robletos then devoted themselves to cleaning and remodeling the building, converting the large building into a restaurant. They opened the business in March and report slow but steady sales.

His wife managed the restaurant which provided the family with a steady source of income and the means to repay outstanding debts. Ronald, while discouraged by Hurricane Mitch, had not stopped dreaming of other enterprises to launch. Once he had recovered financially and gotten the tire business back on its feet, he planned to build a recreation spot on a plot of land he has purchased on a hill overlooking the city.

"Sebaco had no recreational facilities. It was very hot and dry here. There was no place for townspeople to go. A nice center with a pool overlooking the city will do very well here one day. I am also thinking of one day building a small guest house on that site as well."

Otoniel Huerta

Otoniel Huerta was a dentist. He came to Sebaco with nothing but his professional degree. With the help of Integral Cooperative, he had been able to develop a thriving dental practice in the center of town. About ten years ago, Otoniel joined Integral Cooperative at the recommendation of a friend. His first credit union loan of approximately $400 helped him to establish a small dental practice and purchase tools and furniture. During the last nine years, he had taken out five additional loans, each of increasing amounts, to continue to build his practice, remodel his office, purchase equipment and additional dental chairs. He ran an office with two salaried professionals and additional support in the laboratory.

As a result of his loans, Otoniel had been able to serve more patients, and grow his business. It also allowed him to keep up with the latest dental practices and techniques and offer reduced rates to townspeople otherwise unable to afford quality dental care.

Nelly Gutierrez

Nelly Gutierrez was a fifty year old woman with three children who had worked styling and cutting people's hair for the last 35 years. Nelly had been able to make a steady living from her business which she ran from her home. It had allowed her to raise her three children, two of whom now work with their mother in the business. She had been a member of the Integral Cooperative since it first opened. When the cooperative was reactivated in the 1990s, Nelly became involved again. She took out three loans to invest in her business. The first loan the cooperative provided her was for $250. Since that time, she had taken out loans for approximately $900 and $1300 to purchase additional products such as shampoos, conditioners and other hair-care products. She used these products in her business but also resells them to her customers.

Due to the aftermath of the hurricane and economic hardships, she had begun to notice a slight decline in the visits of her regular clientele. She knew that in order to grow her business, she had to attract new customers and a larger base of customers. As a result, Nelly developed a plan to use her next credit union loan to remodel the space she dedicates to the business. She wanted to give the place a new image and appearance and plans to create a formal waiting room to attract a broader range of new customers to her business. The value of the credit union loans, for the most part, have been to help small microentrepreneurs like Nelly Gutierrez to think strategically about their businesses.

Celia Grina Gonzalez

Celia Gonzalez moved to Sebaco from Esteli four years ago in search of better opportunities. A young woman in her twenties, she had spent all of her life working in comedor/food stands. But now, as a result of a credit union loan she owned her own. Situated on a busy intersection in Sebaco, Ms Gonzalez explained that she often served between 30-35 people at a time. Over the last four years, she had built up a steady customer base of regulars for breakfast, lunch and dinners.

On the recommendation of her sister-in-law, Ms. Gonzalez joined Integral Cooperative when she moved to Sebaco. Her first loan for $500 helped her to get started. Since then, Celia had received five additional loans to grow the business, made physical improvements, purchased chairs, tables and stools and bought inputs. She had a loan for $2000 for a period of 18 months. She bought wholesale beans, rice, oil, sodas and other foods to get a better price. Recently, Ms. Gonzalez opened a savings account at the cooperative. This was her first savings account. Previously she either reinvested any earnings back into the business or kept cash at home. She believes, "it was good to have savings for whatever may come up."

Now her husband has joined the credit union as well. With a loan from the credit union, he had purchased a truck to transport the vegetables he grows (tomatoes, onions) to markets to sell. This allowed the family to sell their crops directly, avoiding middle men.

Victor Meseno

Victor Meseno owned a wood-processing and transportation business. He had been a credit union member for two years. Despite the urgings of Integral's credit analyst, and his own concerns that the business is declining, Mr. Meseno used his loans primarily to reinvest in the business. His business had steadily declined over the last few years as forests were being depleted, wood prices were jumping and other cheaper fuels were becoming more abundant. Yet, Mr. Meseno had not made the change to a more lucrative, sustainable business. Mr. Meseno had run this business for 25 years. At times he has employed 10-12 people daily, bundling and packing wood purchased in rural communities outside Sebaco to be transported throughout the country. Some years ago, Mr. Meseno purchased a truck to transport the wood and later bought a second truck.

Since Hurricane Mitch, Meseno reported a 20-30% drop in sales. A brief period of overabundance of wood resulting from uprooted trees and branches gave way to a surge in competition. Over the long haul, this downward trend continued and intensified as the infrastructure necessary for delivering other fuels throughout the countryside expanded. Although, Mr. Meseno had discussed the possibility of starting another form of enterprise, he had not developed a strategy yet.

Iaguei (Corinto)
Anibal Saria

Anibal Saria rented a stall along the corner of the municipal market less than a block from the cooperative. Corinto had an active port that drew people from throughout Nicaragua and workers on ships. The municipal market was thriving. From his location on the corner he had two entrances, enabling him to draw customers from two major streets in the town of Corinto. There, he sold a wide range of food and household products including canned and packaged foods, sugar, rice, beans, oil, soaps and detergents.

Before joining the cooperative three years ago, Anibal had received credit from two other financial institutions, FAMA (a non-governmental credit program) and Banco del Cafe. Now he only used the cooperative because the loans are approved more rapidly, and it offers greater convenience and better service. According to Anibal, the FAMA loans were often delayed, requiring multiple trips to Chinandega. He also did not like the requirement that each borrower had to work in a group and take responsibility for other peoples' loans.

Anibal currently had a loan with the credit union for approximately $130. He had invested his loans in the business, primarily in the form of inventory. He explained that with the loans from the cooperative, he had been able to expand his merchandise both in terms of products and volume. Anibal had opened a savings account and began to increase the savings he can put aside from his business.

Marina Rizo and Cruz Rizo

Marina Rizo operated a pulperia with her mother. They sold grains, rice and a range of merchandise including notebooks, pens, plastic baskets and back-packs. They borrowed from the Iaguei Credit Union with a general loan term of four months. She and her mother had also begun putting money in savings in the credit union. They, unlike many members, had previously saved in a local bank but withdrew their savings because the credit union offered a better rate and greater convenience. Marina and Cruz had also borrowed previously from Banco Popular. These loans were offered only as group lending but it didn't work well for the business. Marina felt this type of loan did not make sense for a vendor. It required considerable time and the delays on the loans made it difficult to use it for the daily needs of the business (working capital).

Every loan she has received from the credit union had been invested in the business, primarily in the purchase of inventory and for working capital. Because Marina Rizo took out loans of relatively short terms, she could not be sure of how many loans she had in the past. She had experienced growth in the levels of loans. She currently borrowed between $1500 and $2000.

Marixta Ayala Almendares

Marixta Ayala was a 52 year old market vendor in Corinto. She had sold refreshments from a stall in the municipal market for the last 25 years. Since 1994, Marixta obtained four small loans from the credit union for her business to purchase inputs at lower prices. Marixta found that small loans for short terms met the needs of her refreshment business.

Four months ago, she came to the credit union to get a larger loan of approximately $900. She used this loan to start a new business in the market that she will be able to turn over to her daughter. After paying off this loan, Marixta remarked that she planned to resume the smaller loans for her refreshment business. Marixta had been a borrower previously from the cooperative and had had money in shares both times that it failed as a result of the changes in the government and the devaluation of the currency. She said she did not lose faith in the credit union, because she had seen how the banks had also failed during those periods.

Prior to the reactivation of the credit union in 1994, Marixta had sought credit through FAMA, a non-governmental credit organization. She didn't like the group lending aspect of FAMA because she claimed that people were always losing money through their solidarity groups. In her own experience, she was in two separate solidarity groups that failed because people did not pay. Because she did not want her credit and name to be damaged, she covered the debts, but found that they were operating with losses. Marixta explained, "the group lending made it so that it is better for the one who doesn't work." In the case of her groups, it was not that people could not pay, it was that they didn't want to. Marixta paid the institution so as not to leave it badly.

In addition to her loan, Marixta had approximately $100 saved in the credit union. Marixta mentioned that many have returned to the credit union now that it is more stable. Even her aunt, who also sells refreshments and does not need credit, used the credit union for savings.

La Unidad

Pablo Perez

Pablo Perez owned 1½ manzanas of land on which he grows beans. He had a credit union loan that he used to cultivate the land and increase his production. When the hurricane came, it wiped out the entire 1½ manzanas of crops and destroyed the land. However, Mr. Perez also operated a microenterprise -- a butcher shop. With the money he earned through his microenterprise, he had been able to earn enough to support his family and to begin repaying his loan.

Mario Salgado

Mario Salgado ran a microenterprise selling grains. When Hurricane Mitch came, it took half of his house with it -- the part where the grains were stored. His entire inventory was wiped out (approximately $500 worth). He had his first credit union loan, for $400. He was able to make the payments on his loan although the process of rebuilding the business is slow.

Daniel Rosales

Daniel Rosales used to sell clothes on the street for someone else's business. With the small commissions he made from the sales he was barely able to support his family. By obtaining a loan of approximately $150 from the credit union he was able to start his own business making bricks.

The loan allowed him to purchase the material necessary to build an oven. After repaying this loan, Daniel took out a second loan for about $900 to obtain materials and launch his business. Hurricane Mitch destroyed the oven, scattering material and debris all over the property.

In order to rebuild the business, Daniel had to return to selling clothing. He reopened the business at a lower level of production in January, 1999. Despite his losses, the sales of bricks had been buoyed by the reconstruction efforts. A relief organization that has been active in rebuilding homes throughout the department purchased bricks from the enterprise.

Justo Pastor Membreno Calderon

Justo Pastor was a small producer of tomatoes, beans, cabbage and vegetables. Last year, Justo Pastor obtained a loan from the credit union for about $900 to purchase hoses and pipes to irrigate his lands and to start a new crop, tobacco. This was to be the first harvest of tobacco. Last year he had decided to diversify his crops because the prices for beans and vegetables fluctuated. After careful consideration, he decided on tobacco because it offered a high price and the land was suitable for the crop. However it required additional inputs of equipment to irrigate.

His lands were among the most affected by Hurricane Mitch. The floods cut a large river through his beans and vegetable fields, leaving behind stones and sand. The rains also ruined the newly planted tobacco crops and destroyed the irrigation system. His entire crop was ruined for this year. He and his family got by with the little they can earn from their hens, pigs and other livestock.

In his more than sixty years, Mr. Membreno had lived through many disasters both natural and man-made, but had never experienced the devastation wrought by Hurricane Mitch.

Angela Lopez Casco

Angela Lopez Casco and her husband were members of the cooperative. She obtained a loan for $130 for seeds to grow corn and beans on their 4 ½ manzanas of land. The crops were destroyed but the land was not ruined. She believed that they would be able to recover the loan with the next harvest. In six months, they will replant and the harvest will not be for another year. In the meantime, her husband had obtained some temporary work on the roads.

Concepcion Gomez

Concepcion Gomez operated a small microenterprise in Yalanguina selling breads, desserts and other small items out of a room in her home. Since joining the credit union, Concepcion had obtained loans that have allowed her to buy a wider range of merchandise and to set-up display counters in the room of her home out of which she runs her business. Her most recent loan of approximately $1300 had helped the business grow.

The business supplemented the income her husband earned cultivating beans, rice and vegetables. Hurricane Mitch destroyed most of the crops and more than half of the family's land. Her husband worked alongside her in the business. The business had given them enough to live on and support their family while they restore the land and prepare for next year’s planting.

Dipilto

Amparo Izaguirre Castellano

Amparo Izaguirre Castellano was a 32 year old single mother of two children in Dipilto. She had operated a small ‘pulperia’ from her home for 10 years. She also opened a small restaurant on the patio next to her home. It was the only restaurant in the rural community of Dipilto. Since joining the credit union, she had obtained four loans for her businesses. Until recently, the credit union had focused almost entirely on agricultural lending, and did not offer loans of more than $150 for commercial activities. Because the loan size was so small, it did not really help her to build up the inventory that came primarily from profits from the business. She used the loan to buy coffee or to plant some seeds on a small plot of land.

She believed higher loan amounts would allow her to purchase more and obtain discounts. During the coffee season, she had higher sales since people have money to spend. A larger loan during this time could really assist the business to grow. Her business and home were destroyed by the floods from the hurricane. Working construction jobs during the week and selling what she can on Saturdays, she gradually rebuilt the business. Family members have also given her some money to rebuild her inventory. Despite her losses, she has repaid her loan to Dipilto Credit Union. When it begins lending again, she plans to seek a larger loan to continue rebuilding the business. She hopes to have the store back up to its former capacity within a year

Martin Morazan

Martin Morazan was a small coffee producer who cultivated approximately three manzanas of land (6 or 7 acres). Mr. Morazan had farmed the land with small amounts of credit from the BND (Banco Nacional de Desarollo). When the BND was replaced by BanPro (Banco Produccion de Agricola), the objectives of the bank changed. BanPro did not want to give small loans to poor farmers.

Three years ago, despite a good history of repayment, the bank stopped providing him with credit. But small farmers require working capital to cover the costs of preparing the land and cultivating the coffee. These loans are critical to maintaining themselves until the harvest. When the bank refused to give Mr. Morazan further credit, he turned to the credit union, which he refers to as the ‘Bank of the Poor’.

Over the past three years, Mr. Morazan had obtained three separate loans from the credit union. His first loan was for approximately $800 which he used to construct a beneficio for his coffee. This was a long-term loan for three years with a due date of March 31, 2000. This loan currently has a balance of approximately $500. Mr. Morazan had also obtained shorter-term loans totaling approximately $700 to purchase fertilizer and equipment and for $500 for further infrastructure development and repairs on the farm. These loans had been repaid.

When Hurricane Mitch struck, it destroyed 1/3 of his land. A large mudslide poured down the hill where his coffee plants grew, taking the plants, trees and the topsoil with it. It left a large trench in the earth, ruining the land all around it. The remaining 2/3 of land suffered crop damage but Mr. Morazan had been able to salvage some of the plants and could even harvest a small amount of coffee from it. Working these two manzanas, Mr. Morazan had been able to begin earning some of the money bit by bit to pay off his loan.

Antonio Oliveras

Antonio Oliveras had created a way to "turn sand into gold." Antonio was a founding member of Dipilto Credit Union. His motive for helping to organize the credit union was "to create a bank for the poor farmers -- that all the poor could be served." Banks, according to Mr. Oliveras, do not provide the small agricultural producers with credit. They had extensive paperwork requirements that make farmers hire lawyers to prepare. The banks also required high levels of collateral that make the cost too high for a small agricultural producer.

Antonio was a coffee producer who, together with his wife, had owned six manzanas. With his first loan from the credit union he purchased an additional eight manzanas of land on which he had successfully been growing coffee. Hurricane Mitch completely destroyed three manzanas of land that produced coffee and the infrastructure he needed to harvest the beans. The floods and mudslides cut a hole it the earth, barely missing the Oliveras home. The soil was taken and left a deep canyon-like trench of sand and pebbles.

In the aftermath of the destruction, Antonio had sought to recover the family's earnings in any way possible. Assessing the damage of sand and pebbles, Antonio had an idea. He purchased a cement press and started a microenterprise making cement blocks from the sand. The construction of roads and homes provides a steady demand for this new industry and has allowed Antonio to employ several young people in the community both in the production and sales of the cement. With two cement presses, he could make up to 70 blocks a day and as of April, 1999, he had sold 500 blocks. With a profit margin of approximately ten cents for each block, Antonio was beginning to recoup some of his losses.